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Introduction

Accounting is the information system which supplies necessary financial information to evaluate performance of an entity and to make financial policy by the financial managers (Gaffikin, 2013). The purpose of this module is to provide a clear understanding of how the accounting process works. In 4 tasks, from recording to financial transactions to preparation of financial statements, the whole accounting process is performed (Horngren and Harrison, 2015). At first the transactions are recorded in journal entries. Then they are posted to ledger accounts for classification of the accounts. Then using the balances of ledger accounts trial balance, profit and loss statement and balance sheet are prepared.

Task-1

(a) Writing up the transactions and preparing ledger accounts

Writing up transactions:

Journal Entries for Maxim Bakery				
Sl. No.	Date	Descriptions	Dr.	Cr.
1	4/5/2019	Cash account	£ 300.00	
		Capital account		£ 300.00
2	4/7/2019	Purchase	£ 200.00	
		Cash account		£ 200.00
3	4/8/2019	Cash account	£ 250.00	
		Loan (Tatiana)		£ 250.00
4	4/15/2019	Motor Van	£ 150.00	
		Cash account		£ 150.00
5	4/20/2019	Cash account	£ 350.00	
		Sales revenue		£ 350.00
6	4/28/2019	Rent expenses	£ 50.00	
		Cash account		£ 50.00
7	4/29/2019	Loan (Tatiana)	£ 200.00	
		Cash account		£ 200.00
8	4/30/2019	Cash withdrawal	£ 60.00	
		Cash account		£ 60.00
9	4/30/2019	Closing stock	£ 100.00	
		Purchase		£ 100.00

Preparing ledger accounts:

Cash account					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
1	Capital account	£ 300.00	2	Purchase	£ 200.00
3	Loan (Tatiana)	£ 250.00	4	Motor van	£ 150.00
5	Sales revenue	£ 350.00	6	Rent expenses	£ 50.00
			7	Loan (Tatiana)	£ 200.00
			8	Cash withdrawal	£ 60.00
				Balance c/f	£ 240.00
		£ 900.00			£ 900.00
	Balance b/f	£ 240.00			

Capital Account					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
	Balance c/f	£ 300.00	1	Cash account	£ 300.00
		<u>£ 300.00</u>			<u>£ 300.00</u>
				Balance b/f	£ 300.00

Purchase					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
2	Cash account	£ 200.00		Balance c/f	£ 200.00
		<u>£ 200.00</u>			<u>£ 200.00</u>
	Balance b/f	£ 200.00			

Loan Account					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
7	Cash account	£ 200.00	3	Cash account	£ 250.00
	Balance c/f	£ 50.00			
		<u>£ 250.00</u>			<u>£ 250.00</u>
				Balance b/f	£ 50.00

Motor Van					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
4	Cash account	£ 150.00		Balance c/f	£ 150.00
		<u>£ 150.00</u>			<u>£ 150.00</u>
	Balance b/f	£ 150.00			

Sales Revenue					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
	Balance c/f	£ 350.00	5	Cash account	£ 350.00
		<u>£ 350.00</u>			<u>£ 350.00</u>
				Balance b/f	£ 350.00

(b) Closing ledger accounts and preparing the list of accounts

Trial Balance			
As on 30 April			
Sl. No.	Descriptions	Dr.	Cr.
1	Cash in hand	£ 240.00	
2	Owner's Capital		£ 300.00
3	Purchase	£ 200.00	
4	Loan from Tatiana		£ 50.00
5	Motor Van	£ 150.00	
6	Sales revenue		£ 350.00
7	Rent expenses	£ 50.00	
8	Cash withdrawal	£ 60.00	
	Total	<u>£ 700.00</u>	<u>£ 700.00</u>

(c) Preparing financial statements using the ledger balances

Profit and loss statement		
For the month ended 30 April		
Sales revenue		£ 350.00
Cost of goods sold		
Purchase	£ 200.00	
Less: Closing stock	£ 100.00	£ 100.00
Gross Income		£ 250.00
Less: expenses		
Rent expenses		£ 50.00
Net Income		<u>£ 200.00</u>

Statement of financial position				
At 30 April				
Liabilities and equity		Amount	Assets	Amount
Loan from Tatiana		£ 50.00	Cash in hand	£ 240.00
Owner's Capital	£ 300.00		Closing inventory	£ 100.00
Less: Cash withdrawal	<u>£ 60.00</u>		Fixed asset (Motor van)	£ 150.00
	£ 240.00			
Add: Net income	<u>£ 200.00</u>	£ 440.00		
Total liabilities and owner's equity		<u>£ 490.00</u>	Total assets	<u>£ 490.00</u>

Task-2

(a) Writing up ledger accounts for the transactions with date, description and amount

Recording transactions in Journal entries:

Journal entries for Pendo				
Sl. No.	Date	Descriptions	Dr.	Cr.
1	1/1/2019	Cash account	£ 5,000.00	
		Owner's Capital		£ 5,000.00
2	1/2/2019	Motor Van	£ 600.00	
		Cash account		£ 600.00
3	1/3/2019	Purchase	£ 1,300.00	
		Cash account		£ 1,300.00
4	1/4/2019	Cash account	£ 1,000.00	
		Loan (Sergei)		£ 1,000.00
5	1/10/2019	Expense for motor van	£ 200.00	
		Cash account		£ 200.00
6	1/13/2019	Cash account	£ 300.00	
		Sales revenue		£ 300.00
7	1/20/2019	Cash account	£ 500.00	
		Sales revenue		£ 500.00
8	1/24/2019	Expenses for storage	£ 150.00	
		Cash account		£ 150.00
9	1/27/2019	Loan (Sergei)	£ 350.00	
		Cash account		£ 350.00
10	1/30/2019	Cash withdrawal	£ 175.00	
		Cash account		£ 175.00
11	1/31/2019	Ending inventory	£ 800.00	
		Purchase		£ 800.00

Posting in ledger accounts:

Cash account					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
1	Owner's Capital	£ 5,000.00	2	Motor van	£ 600.00
4	Loan (Sergei)	£ 1,000.00	3	Purchase	£ 1,300.00
6	Sales revenue	£ 300.00	5	Expense for motor van	£ 200.00
7	Sales revenue	£ 500.00	8	Expenses for storage	£ 150.00
			9	Loan (Sergei)	£ 350.00
			10	Cash withdrawal	£ 175.00
				Balance c/f	£ 4,025.00
		<u>£ 6,800.00</u>			<u>£ 6,800.00</u>
	Balance b/f	£ 4,025.00			

Loan (Sergei)					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
9	Cash account	£ 350.00	4	Cash account	£ 1,000.00
	Balance c/f	£ 650.00			
		<u>£ 1,000.00</u>			<u>£ 1,000.00</u>
				Balance b/f	£ 650.00

Sales					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
			6	Cash account	£ 300.00
	Balance c/f	£ 800.00	7	Cash account	£ 500.00
		<u>£ 800.00</u>			<u>£ 800.00</u>
				Balance b/f	£ 800.00

Cash withdrawal					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
10	Cash account	£ 175.00		Balance c/f	£ 175.00
		<u>£ 175.00</u>			<u>£ 175.00</u>
	Balance b/f	£ 175.00			

Expense for motor van					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
5	Cash account	£ 200.00		Balance c/f	£ 200.00
		<u>£ 200.00</u>			<u>£ 200.00</u>
	Balance b/f	£ 200.00			

Owner's Capital					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
	Balance c/f	£ 5,000.00	1	Cash account	£ 5,000.00
		<u>£ 5,000.00</u>			<u>£ 5,000.00</u>
				Balance b/f	£ 5,000.00

Purchase					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
3	Cash account	£ 1,300.00	11	Ending inventory	£ 800.00
				Balance c/f	£ 500.00
		<u>£ 1,300.00</u>			<u>£ 1,300.00</u>
	Balance b/f	£ 500.00			

Motor Van					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
2	Cash account	£ 600.00		Balance c/f	£ 600.00
		<u>£ 600.00</u>			<u>£ 600.00</u>
	Balance b/f	£ 600.00			

Expenses for storage					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
8	Cash account	£ 150.00		Balance c/f	£ 150.00
		<u>£ 150.00</u>			<u>£ 150.00</u>
	Balance b/f	£ 150.00			

Ending inventory					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
11	Purchase	£ 800.00		Balance c/f	£ 800.00
		<u>£ 800.00</u>			<u>£ 800.00</u>
	Balance b/f	£ 800.00			

(b) Preparation of trial balance as on 31 January

Trial Balance As on 31 January			
Sl. No.	Descriptions	Dr	Cr
1	Cash in hand	£ 4,025.00	
2	Owner's Capital		£ 5,000.00
3	Purchase	£ 500.00	
4	Loan (Sergei)		£ 650.00
5	Motor Van	£ 600.00	
6	Sales revenue		£ 800.00
7	Expense for motor van	£ 200.00	
8	Cash withdrawal	£ 175.00	
9	Expenses for storage	£ 150.00	
10	Ending inventory	£ 800.00	
	Total	<u>£ 6,450.00</u>	<u>£ 6,450.00</u>

(c) Preparation profit and loss statement and balance sheet

Profit and loss statement		
For the month ended 31 January		
Sales revenue		£ 800.00
Cost of goods sold		
Purchase	£ 1,300.00	
Less: Closing stock	£ 800.00	£ 500.00
Gross income		£ 300.00
Less: Expenses		
Expenses for storage	£ 150.00	
Expense for motor van	£ 200.00	£ 350.00
Net Income/(Loss)		<u>-£ 50.00</u>

Statement of financial position				
At 31 January				
Liabilities and equity		Amount	Assets	Amount
Loan		£ 650.00	Cash account	£ 4,025.00
Capital	£ 5,000.00		Ending inventory	£ 800.00
Less: Withdrawal	<u>£ 175.00</u>		Motor van	£ 600.00
	£ 4,825.00			
Add: Net profit	<u>-£ 50.00</u>	£ 4,775.00		
Total liabilities and owner's equity		<u>£ 5,425.00</u>	Total assets	<u>£ 5,425.00</u>

Task-3

(a) Writing up and closing the ledger accounts 9 / **Recording transactions:**

Journal entries for				
Mafuta				
Sl. No.	Date	Descriptions	Dr	Cr
1	1/2/2019	Account receivables (Harvey)	£ 124.00	
		Sales revenue		£ 124.00
2	1/5/2019	Wage expenses	£ 12.00	
		Cash account		£ 12.00
3	1/5/2019	Purchase	£ 150.00	
		Account payables (Rich)		£ 150.00
4	1/7/2019	Cash account	£ 18.00	
		Account receivables (Smith)		£ 18.00
5	1/9/2019	Account Payables (max)	£ 21.00	
		Cash account		£ 21.00
6	1/11/2019	Cash account	£ 64.00	
		Sales revenue		£ 64.00
7	1/14/2019	Wage expenses	£ 14.00	
		Cash account		£ 14.00
8	1/14/2019	Purchase	£ 75.00	
		Cash account		£ 75.00
9	1/15/2019	Account payables (Rich)	£ 162.00	
		Cash account		£ 162.00
10	1/20/2019	Furniture and fittings	£ 32.00	
		Cash account		£ 32.00
11	1/21/2019	Wage expenses	£ 17.00	
		Cash account		£ 17.00
12	1/21/2019	Cash account	£ 110.00	
		Sales revenue		£ 110.00
13	1/23/2019	Office expenses	£ 3.00	
		Cash account		£ 3.00
14	1/23/2019	Cash account	£ 163.00	
		Account receivables (Harvey)		£ 163.00
15	1/28/2019	Cash account	£ 84.00	
		Sales revenue		£ 84.00
16	1/28/2019	Wage expenses	£ 15.00	
		Cash account		£ 15.00
17	1/31/2019	Cash account	£ 30.00	
		Sales revenue		£ 30.00
18	1/31/2019	Closing Stock	£ 374.00	
		Purchase		£ 374.00

Posting to ledger accounts:

Cash account					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
	Starting blc	£ 343.00	2	Wage expenses	£ 12.00
4	Smith	£ 18.00	5	Max	£ 21.00
6	Sales revenue	£ 64.00	7	Wage expenses	£ 14.00
12	Sales revenue	£ 110.00	8	Purchase	£ 75.00
14	Harvey	£ 163.00	9	Rich	£ 162.00
15	Sales revenue	£ 84.00	10	Office Desk	£ 32.00
17	Sales revenue	£ 30.00	11	Wage expenses	£ 17.00
			13	Office expenses	£ 3.00
			16	Wage expenses	£ 15.00
				Balance c/f	£ 461.00
		<u>£ 812.00</u>			<u>£ 812.00</u>
	Balance b/f	£ 461.00			

Wage expenses					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
2	Cash account	£ 12.00			
7	Cash account	£ 14.00			
11	Cash account	£ 17.00			
16	Cash account	£ 15.00		Balance c/f	£ 58.00
		<u>£ 58.00</u>			<u>£ 58.00</u>
	Balance b/f	£ 58.00			

Sales revenue					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
			1	Harvey	£ 124.00
			6	Cash account	£ 64.00
			12	Cash account	£ 110.00
			15	Cash account	£ 84.00
	Balance c/f	£ 412.00	17	Cash account	£ 30.00
		<u>£ 412.00</u>			<u>£ 412.00</u>
				Balance b/f	£ 412.00

Purchase					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
3	Rich	£ 150.00			
8	Cash account	£ 75.00		Balance c/f	£ 225.00
		<u>£ 225.00</u>			<u>£ 225.00</u>
	Balance b/f	£ 225.00			

Account Payables					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
5	Cash account	£ 21.00		Starting blc	£ 33.00
9	Cash account	£ 162.00	3	Purchase	£ 150.00
		<u>£ 183.00</u>			<u>£ 183.00</u>

Account Receivables					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
	Starting blc	£ 83.00	4	Cash account	£ 18.00
1	Sales revenue	£ 124.00	14	Cash account	£ 163.00
				Balance c/f	£ 26.00
		<u>£ 207.00</u>			<u>£ 207.00</u>
	Balance b/f	£ 26.00			

Furniture and fittings					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
	Starting Blc	£ 198.00			
10	Cash account	£ 32.00		Balance c/f	£ 230.00
		<u>£ 230.00</u>			<u>£ 230.00</u>
	Balance b/f	£ 230.00			

Office Expenses					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
13	Cash account	£ 3.00		Balance c/f	£ 3.00
		<u>£ 3.00</u>			<u>£ 3.00</u>
	Balance b/f	£ 3.00			

(b) Preparation of trial balance as on 31 January

Trial Balance			
As on 31 January			
Sl. No.	Descriptions	Dr	Cr
1	Cash in hand	£ 461.00	
2	Wage expenses	£ 58.00	
3	Sales revenue		£ 412.00
4	Purchase	£ 225.00	
5	Account receivables	£ 26.00	
6	Furniture and fittings	£ 230.00	
7	Office expenses	£ 3.00	
8	Starting Stock	£ 458.00	
9	Owner's capital		£ 1,049.00
	Total	<u>£ 1,461.00</u>	<u>£ 1,461.00</u>

(c) Preparation of profit and loss statement and balance sheet

Profit and loss statement		
For the month ended 31 January		
Sales revenue		£ 412.00
Cost of goods sold		
Starting stock	£ 458.00	
Add: Purchase	£ 225.00	
Less: Ending stock	£ 374.00	£ 309.00
Gross income		£ 103.00
Less: Expenses		
Office expenses	£ 3.00	
Wage expenses	£ 58.00	£ 61.00
Net Income/(Loss)		<u>£ 42.00</u>

Statement of financial position				
At 31 January				
Liabilities and equity		Amount	Assets	Amount
Owner's Capital	£ 1,049.00		Cash in hand	£ 461.00
Add: Net income	<u>£ 42.00</u>	£ 1,091.00	Closing stock	£ 374.00
			Account receivables	£ 26.00
			Furniture and fittings	£ 230.00
Total liabilities and owner's equity		<u>£ 1,091.00</u>	Total assets	<u>£ 1,091.00</u>

Task-4

Preparation of ledger accounts

Journal entries for Ricardo				
Sl. No.	Date	Descriptions	Debit	Credit
1	6/2/2019	Account Receivables (Claire)	£ 8,500.00	
		Sales revenue		£ 8,500.00
2	6/13/1900	Purchase	£ 12,000.00	
		Account payables (Georgia)		£ 12,000.00
3	6/14/2019	Account Receivables (Hywel)	£ 8,550.00	
		Sales revenue		£ 8,550.00
4	6/20/2019	Cash account	£ 6,000.00	
		Sales revenue		£ 6,000.00
5	6/21/2019	Purchase	£ 4,500.00	
		Account Payables (Andrew)		£ 4,500.00
6	6/22/2019	Sales return	£ 1,000.00	
		Account Receivables (Claire)		£ 1,000.00
7	6/24/2019	Account Receivables (Mandy)	£ 5,000.00	
		Sales revenue		£ 5,000.00
8	6/24/2019	Cash account	£ 7,125.00	
		Discount paid	£ 375.00	
		Account Receivables (Claire)		£ 7,500.00
9	6/25/2019	Cash account	£ 8,550.00	
		Account Receivables (Hywel)		£ 8,550.00
10	6/25/2019	Account payables (Georgia)	£ 12,000.00	
		Cash account		£ 11,160.00
		Discount earned		£ 840.00
11	6/27/2019	Account Payables (Andrew)	£ 4,500.00	
		Cash account		£ 4,410.00
		Discount earned		£ 90.00

Cash account					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
4	Sales revenue	£ 6,000.00	10	Account payables (Georgia)	£ 11,160.00
8	Account Receivables (Claire)	£ 7,125.00	11	Account Payables (Andrew)	£ 4,410.00
9	Account Receivables (Hywel)	£ 8,550.00			
				Balance c/f	£ 6,105.00
		<u>£ 21,675.00</u>			<u>£ 21,675.00</u>
	Balance b/f	£ 6,105.00			

Sales revenue					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
			1	Account Receivables (Claire)	£ 8,500.00
			3	Account Receivables (Hywel)	£ 8,550.00
			4	Cash account	£ 6,000.00
	Balance c/f	£ 28,050.00	7	Account Receivables (Mandy)	£ 5,000.00
		<u>£ 28,050.00</u>			<u>£ 28,050.00</u>
				Balance b/f	£ 28,050.00

Purchase					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
2	Account payables (Georgia)	£ 12,000.00			
5	Account Payables (Andrew)	£ 4,500.00		Balance c/f	£ 16,500.00
		<u>£ 16,500.00</u>			<u>£ 16,500.00</u>
	Balance b/f	£ 16,500.00			

Sales return					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
6	Account Receivables (Claire)	£ 1,000.00		Balance c/f	£ 1,000.00
		<u>£ 1,000.00</u>			<u>£ 1,000.00</u>
	Balance b/f	£ 1,000.00			

Account receivables					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
1	Sales revenue	£ 8,500.00	6	Sales return	£ 1,000.00
3	Sales revenue	£ 8,550.00	8	Cash account	£ 7,125.00
7	Sales revenue	£ 5,000.00	8	Discount paid	£ 375.00
			9	Cash account	£ 8,550.00
				Balance c/f	£ 5,000.00
		<u>£ 22,050.00</u>			<u>£ 22,050.00</u>
	Balance b/f	£ 5,000.00			

Account payables					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
10	Cash account	£ 11,160.00	2	Purchase	£ 12,000.00
10	Discount earned	£ 840.00	5	Purchase	£ 4,500.00
11	Cash account	£ 4,410.00			
11	Discount earned	£ 90.00			
		<u>£ 16,500.00</u>			<u>£ 16,500.00</u>

Discount paid					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
8	Account Receivables (Claire)	£ 375.00		Balance c/f	£ 375.00
		<u>£ 375.00</u>			<u>£ 375.00</u>
	Balance b/f	£ 375.00			

Discount earned					
Sl. No.	Descriptions	Debit	Sl. No.	Descriptions	Credit
			10	Account payables (Georgia)	£ 840.00
	Balance c/f	£ 930.00	11	Account Payables (Andrew)	£ 90.00
		<u>£ 930.00</u>			<u>£ 930.00</u>
				Balance b/f	£ 930.00

Preparation of trial balance

Trial Balance			
As on 27 June			
Sl. No.	Descriptions	Dr	Cr
1	Cash in hand	£ 6,105.00	
2	Sales revenue		£ 28,050.00
3	Purchase	£ 16,500.00	
4	Sales return	£ 1,000.00	
5	Account receivables	£ 5,000.00	
6	Discount paid	£ 375.00	
7	Discount earned		£ 930.00
	Total	<u>£ 28,980.00</u>	<u>£ 28,980.00</u>

Task-5

Difference between capital expenditure and revenue expenditure with reference to International Accounting Standards

Revenue expenditure: when business spends money for financing its day to day operation, it is called revenue expenditure. The expenses incurred by businesses to purchase merchandize goods, office stationary, pay utility bill and meet up other day to day operational needs are recorded as revenue expenditure (Wild and Shaw, 2015). IAS 18: Revenue set out the guidelines for accounting treatment of revenue expenditures.

Capital expenditure: when business spends money to purchase non-current assets or to improve the existing non-current assets, it is called capital expenditure (Kimmel, Weygandt and Kieso, 2019). The expenses incurred to buy fixed assets, testing and installation cost of fixed assets, research and development cost, cost of launching new products, modernization of facilities, expansion cost etc are included in capital expenditure. IAS 16: Property, Plant and Equipment set put the rules for recording and classifying capital expenditures.

The main differences between capital expenditure and revenue expenditures are presented in the following table:

Name	Capital expenditures	Revenue expenditures
Timing	Incurred for long period of time, more than 1 year. These are charged to expense gradually through depreciation	Expenses are made for shorter period of time, 1 year or less than 1 year. These are charged in the current year or shortly thereafter
Consumption	These are expected to be consumed over the useful life of the fixed assets	These are expected to be consumed within a very short period of time for 1 year or less than 1 year (Pratt, 2017)
Size	Size of capital expenditure is large	Size of revenue expenditures is small
Purpose	To maintain the future growth of the organization (Elliott and Elliott, 2019)	To ensure smooth functioning of day to day business operations
IAS	IAS 16: Property, Plant and Equipment	IAS 18: Revenue

Conclusion

The accounting process consists of five interrelated steps which are recording, classifying, summarizing, preparing financial statements, and interpreting the result. Recording is writing up transactions in journal book. Classification means posting the journal entries in ledger accounts. Summarizing means listing the balances of ledger accounts in trial balance. Using the trial balance the financial statements are prepared. The expenditures are classified to determine how they should be treated. Revenue expenditures are shown in profit and loss statement and capital expenditures are shown in balance sheet.

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